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# **THE IMPLEMENTATION PLAN**

**Endorsed at**

**The 13<sup>th</sup> ASEAN Finance Ministers Meeting**

**Prepared by**

**ASEAN Capital Markets Forum (ACMF)**

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## EXECUTIVE SUMMARY

*The ASEAN Capital Markets Forum (ACMF) comprises securities regulators from 10 ASEAN jurisdictions, namely Brunei Darussalam, Cambodia, Indonesia, Laos PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. The ACMF is currently chaired by the Securities and Exchange Commission, Thailand.*

At the ASEAN Finance Ministers' Meeting in Danang on 4 April 2008 (AFMM 2008), the ACMF proposed to establish a Group of Experts (GOE) to assist in drafting a proposal for an "Implementation Plan to promote the Development of an Integrated Capital Market to achieve the objectives of the AEC Blueprint 2015" (Implementation Plan 2015), and to present that Plan to the Finance Ministers for their consideration at AFMM 2009.

The AEC Blueprint 2015 pertaining to capital markets seeks to achieve significant progress in building a regionally integrated market, **where within the region: 1) capital can move freely; 2) issuers are free to raise capital anywhere; and 3) investors can invest anywhere.** In such a market, anyone would be able to trade in ASEAN capital market products freely in any ASEAN market at a competitive fee from a single access point, with capital market intermediaries being able to provide services throughout ASEAN based on home country approval.

**Rationale for Regional Integration.** There are two main reasons why ASEAN needs to support regional financial cooperation and integration. The first is to strengthen financial intermediation, capacity, and risk management to support national and regional growth. The second is to cooperate to reduce vulnerabilities to external shocks and market volatility, a point that became clearer after the Asian Crisis of 1997 and is underscored by the present global financial crisis. In this context, regional integration can facilitate both domestic capital market development as well as global integration by providing the liquidity, scale, and capacity to compete globally. Moreover, integration will contribute to financial stability by expanding the market which can be accessed by regional players in the region, hence facilitating diversification, and reducing domestic volatility resulting from global shocks. Additionally, regional cooperation can also provide a greater voice on financial stability and development issues in global fora. This last consideration has become particularly important for designing coordinated responses to current global financial and economic crisis. In addition, regional integration initiatives and the associated alignment of national regulatory standards with international standards provide an opportunity to draw the lessons of the crisis for risk management, regulatory surveillance, asset securitization, and market microstructure. Moreover, the growing competition from global players, and the pressures for consolidation and efficiency enhancements due to technological and regulatory changes make regional integration of capital markets a pressing policy concern and calls for a comprehensive strategy. ASEAN risks being irrelevant if it fails to act cohesively as a region.

**Challenges.** Currently, however, progress toward regional integration of capital markets has been constrained by the large differences in the levels of development and in the observance of regulatory standards, capital controls, fragmented infrastructure, and insufficient coordination and monitoring mechanisms. The key challenge therefore is to set up a well sequenced program of regional integration initiatives to achieve the goals of AEC 2015, support it by embedding regional considerations into domestic capital market development programs and reinforce the above through a well designed ASEAN-level monitoring and coordination mechanism. The two-way interaction between strengthening domestic capital markets, and fostering integration, requires that domestic capital market reforms and measures to enhance greater cross-border access, together be properly sequenced and coordinated, based on:

- Common international standards.
- Judicious use of mutual recognition in finance and business.

- Further liberalization of capital controls and exchange restrictions.
- Further strengthening prudential safeguards and risk management capabilities to help manage volatility and compete effectively.

Therefore, a comprehensive approach is needed at the ASEAN level, supported by firm country level implementation. Moreover, in the current context of the on-going global crisis, an accelerated program of financial integration would position ASEAN strategically in the global financial architecture, assist national governments to raise funding to combat recession and counter the emerging balance of payment pressures, and strengthen domestic and regional financial intermediation to support growth.

**Pre-conditions.** To advance in financial integration, the region needs to further liberalize cross-border capital flows. Despite progress made over the last few years, feedback and views received from the team of experts confirm that capital account restrictions are impediments to cross-border flows. Acknowledging the problem, the AEC Blueprint 2015 has included capital account liberalization in the region's financial integration program. However, capital account management practices differ significantly across ASEAN countries. Moreover, other factors such as withholding tax arrangements—also constitute barriers to capital account transactions in some cases. In addition, broader policy considerations must be taken into account besides the goal of regional financial integration when each country decides the specifics of its liberalization program.

However, while liberalization of cross-border capital flows and tax reform are important for capital market integration under the AEC Blueprint objectives, they are clearly beyond the scope of the ACMF as securities regulators. Therefore, the ACMF proposes that these and other recommendations beyond the remit of the ACMF be further assessed by the relevant authorities such as the Ministries of Finance, Central Banks, stock exchanges and also various working committees under the ASEAN process (especially, the Working Committee on Capital Account Liberalization and the Working Committee on Financial Services Liberalization) to develop and put in place the necessary action plans. As these issues cut across several various parties, the ACMF is of the view that the ASEAN Secretariat as a central body can play a key role in driving and coordinating the implementation of the initiatives to achieve the recommendations under the Plan.

**Prioritization.** The ACMF members recognize that an effective implementation plan must be clearly sequenced and prioritised. The AEC Blueprint envisages three distinct phases. The Implementation Plan provides greater and more detailed description of the actions to be undertaken in these phases, including identifying the actions that can be addressed directly by the ACMF and highlighting others that constitute binding constraints that can only be addressed by Central Banks and Ministries of Finance. A large number of the recommendations specified in the Implementation Plan can be worked upon by the ACMF as early as Phase I as they relate directly to the capital market, while other initiatives such as liberalization of capital account restrictions and reform of tax system may require further coordination and action by the relevant authorities and working committees.

**Core Strategy.** The core strategy in the Plan is a mutual recognition/harmonization process of expanding scope and country coverage, supported by efforts to liberalize capital account restrictions and to reform tax system, the establishment of trading and settlement system alliances and infrastructure, and a strengthened coordination and monitoring processes at both regional and country levels to support implementation.

Given the differing levels of capital market development and readiness amongst ASEAN countries, the mutual recognition initiatives should be implemented bilaterally first and then multilaterally as other countries become ready to join in. In addition, it is often easier to relax restrictions on activities targeted

at non-retail investors, who can look after themselves and need less protection than retail investors. Therefore, it may be practicable to enable cross-border products and services to be made available first to non-retail investors (NRI) and make them available to retail investors (RI) later, when adequate protections are in place.

In addition, in light of the rapidly changing environment of the global financial market, the ACMF will review and assess the recommendations in the Implementation Plan as appropriate and take into consideration prevailing circumstances including market readiness and adequate safeguards for investor protection, and reprioritize where necessary. This will ensure an orderly and practical approach towards the implementation of the initiatives.

The Plan is guided by the key principles summarized in Box 1.

**Box 1: Key Principles of the Implementation Plan**

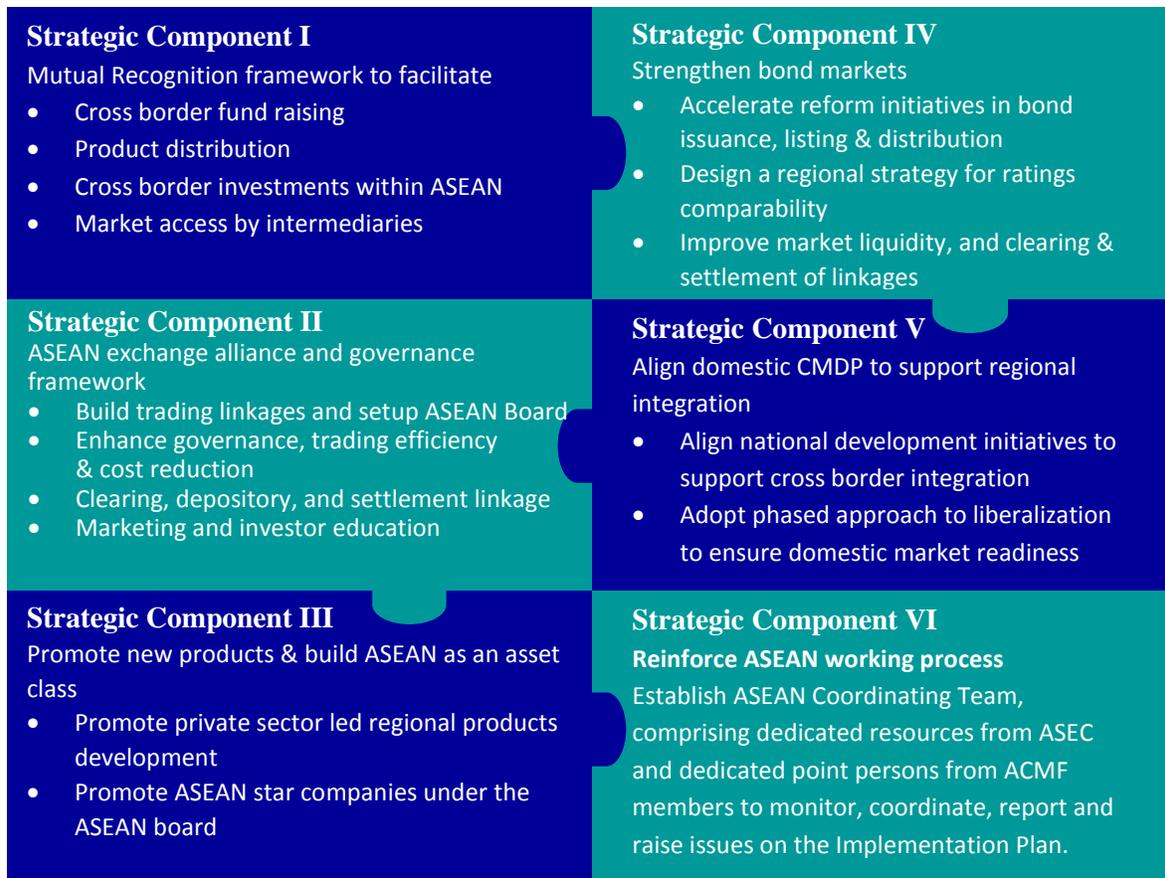
- Adoption of international standards to the maximum extent possible.
- Progressive liberalization to facilitate more open access and cost reduction through greater competition.
- Sequencing of regional integration initiatives taking into account ease of implementation, market preferences and technical linkages.
- Adequate coordination of ASEAN level working processes.
- Consistent implementation of policies to support regional integration at country level, with effective monitoring mechanisms.
- Strong communications plan and consultative processes to build consensus and set priorities for integration initiatives.

**Themes and Strategic Initiatives.** The Implementation Plan seeks to achieve the goals of AEC Blueprint 2015 by offering a comprehensive set of strategic initiatives and formulating specific implementation actions and milestones. The initiatives cover three broad themes as presented in Figure 1.

**Figure 1: Three Broad Themes and Six Strategic components**

Creating an Enabling Environment for Regional Integration*	Creating the Market Infrastructure and Regionally Focused Products and Intermediaries	Strengthening the Implementation Process
<ul style="list-style-type: none"> <li>• Mutual Recognition Framework.</li> </ul>	<ul style="list-style-type: none"> <li>• ASEAN exchange alliance and governance framework.</li> <li>• Promoting new products and building ASEAN as an asset class.</li> <li>• Strengthening bond markets.</li> </ul>	<ul style="list-style-type: none"> <li>• Aligning domestic capital market development plan to support regional integration.</li> <li>• Reinforcing ASEAN working process.</li> </ul>

\* To create an enabling environment, restrictions on capital flow should also be gradually liberalized along with the reform of tax system in order to facilitate cross-border transactions. However, as these issues are beyond the scope of ACMF, relevant authorities and working committees should further assess to develop and put in place the necessary action plans.



Under each of the above themes, six strategic components were identified, discussed and developed in a series of consultative meetings organized under the ADB regional technical assistance programs in 2007-2008. Supported by these programs, a Group of Experts (GOE) and the ACMF have developed the Implementation Plan as presented in Figure 2.

**Figure 2: Six Strategic components and Key Initiatives - An Overview****SUMMARY OF THE IMPLEMENTATION PLAN**

<b>Subject</b>	<b>Findings and Recommendations</b>
<b>Key Principles of the Implementation Plan</b>	<ul style="list-style-type: none"> <li>• Adoption of international standards to the maximum extent possible.</li> <li>• Progressive liberalization to facilitate more open access and cost reduction through greater competition.</li> <li>• Sequencing of regional integration initiatives taking into account ease of implementation, market preferences, and technical linkages.</li> <li>• Adequate coordination of ASEAN level working processes.</li> <li>• Consistent implementation of policies to support regional integration at country level, with effective monitoring mechanisms.</li> <li>• Strong communications plan and consultative processes to build consensus and set priorities for integration initiatives.</li> </ul>
<b>1. Introduction and Background</b>	<ul style="list-style-type: none"> <li>• Implementation Plan is to promote the Development of an Integrated Capital Market to achieve the objectives of the AEC Blueprint 2015</li> </ul>
<b>2. Vision and the Approach to Integration</b>	<ul style="list-style-type: none"> <li>• The AEC Blueprint 2015 pertaining to capital markets seeks to achieve significant progress in building a regionally integrated market, where within the region: 1) capital can move freely; 2) issuers are free to raise capital anywhere; and 3) investors can invest anywhere.</li> <li>• Two closely related approaches: 1) to focus on full harmonization of domestic laws, regulations, and operations in order to facilitate cross-border access (undertaken in EU); and 2) to create enabling conditions for access with broad harmonization, and supported by mutual recognition and a greater freedom for capital movements. (implicit in the AEC blueprint 2015)</li> </ul>
<b>3. Rationale</b>	<ul style="list-style-type: none"> <li>• Two main reasons support regional financial cooperation and integration: 1) to strengthen financial intermediation and risk management to support national and regional growth; and 2) to cooperate to reduce vulnerabilities to external shocks and market volatility, a point that became clearer after the Asian Crisis of 1997.</li> </ul>
<b>4. Obstacles and Challenges to Integration</b>	<ul style="list-style-type: none"> <li>• Obstacles are: <ul style="list-style-type: none"> <li>(i) significant differences in the levels of development of capital markets;</li> <li>(ii) some views that domestic markets should be integrating with the rest of the world rather than within ASEAN;</li> <li>(iii) countries differ significantly in the extent to which their national development plans include the measures to enable and benefit from greater regional integration;</li> <li>(iv) existence of capital controls and exchange restrictions in many jurisdictions, differences in the withholding tax regimes; and</li> <li>(v) lack of clarity on the coordination and monitoring mechanisms in ASEAN</li> </ul> </li> <li>• The key challenge therefore is to set up a well sequenced program of regional integration initiatives to achieve the goals of AEC 2015, support it by embedding regional considerations into domestic capital market development programs and reinforce the above through a well designed ASEAN-level monitoring and coordination mechanism.</li> </ul>
<b>5. Core Components of the Implementation Plan</b>	<ul style="list-style-type: none"> <li>• The core strategy in the Plan is a mutual recognition/harmonization process of expanding scope and country coverage, the building up of needed trading and settlement system alliances and infrastructure, and a strengthened coordination and monitoring processes at both regional and country levels to support implementation.</li> </ul>

## 6. Overview of the Core Components and Recommendations

Subject	Recommendations*
<b>A. Creating an Enabling Environment for Regional Integration</b>	
<b>[Strategic Component I ] Mutual Recognition(MR) and Harmonisation Framework</b>	
<b>Facilitate cross-border fund raising</b>	<ul style="list-style-type: none"> <li>• Harmonize disclosure standards, align distribution rules and develop MR framework for primary offerings.</li> <li>• MR of market professionals involved in primary offerings.</li> </ul>
<b>Facilitate cross-border product distribution</b>	<ul style="list-style-type: none"> <li>• Allow local intermediaries to distribute ASEAN listed products, with marketing support services.</li> <li>• MR of other market professionals, e.g. involved in marketing.</li> <li>• MR framework for distribution of CIS products.</li> </ul>
<b>Facilitate cross-border investments by investors</b>	<ul style="list-style-type: none"> <li>• Promote cross-border investments through local intermediaries.</li> <li>• Develop harmonized criteria for NRI (Non-Retail Investors).</li> <li>• Recognize ASEAN exchanges under host country rules.</li> <li>• Adopt a liberalization plan to allow NRI/RI to invest freely in ASEAN.</li> </ul>
<b>Facilitate market access by intermediaries</b>	<ul style="list-style-type: none"> <li>• MR framework for provision of products and services by market intermediaries to NRI.</li> <li>• Work toward single passport with home country approval.</li> </ul>
<b>B. Creating the Market Infrastructure and Regionally Focused Products and Intermediaries</b>	
<b>[Strategic Component II-I ] Develop Exchange Alliance Framework</b>	
<b>Formulation of medium term vision for the ASEAN exchanges</b>	<ul style="list-style-type: none"> <li>• Formulate Medium Term Vision.</li> <li>• Engage ASEAN Exchanges for overall governance and implementation of exchange alliances.</li> </ul>
<b>Build Infrastructure</b>	<ul style="list-style-type: none"> <li>• Set up ASEAN Common Exchange Gateway (ACE)– electronic link for direct access by foreign brokers, as clients of local members.</li> <li>• ASEAN clearing houses act as central counterparty for cross-border trades.</li> <li>• Form depository links for cross-border settlement and custody.</li> <li>• Organize joint banking services, including forex and corporate actions, for economies of scale.</li> </ul>
<b>Promote Cross-border Trading and Develop Regional Markets</b>	<ul style="list-style-type: none"> <li>• Set up an ASEAN Marketing Committee.</li> <li>• Develop comprehensive marketing plan including investor education, marketing news and data dissemination etc.</li> <li>• Act as catalyst to promote trading volume, help remove barriers to cross-border trade and promote products, regional intermediaries and star companies.</li> </ul>
<b>[Strategic Component II-2 ] Strengthening Exchange and Corporate Governance</b>	
<b>Demutualization</b>	<ul style="list-style-type: none"> <li>• Complete the demutualization process.</li> </ul>
<b>Coordinate listing rules, corporate governance standards</b>	<ul style="list-style-type: none"> <li>• Map requirements in the listing rules, corporate governance and disclosure standards.</li> </ul>
<b>Enhance information sharing and cooperation among exchanges</b>	<ul style="list-style-type: none"> <li>• ASEAN exchanges endeavour to sign multilateral MOU for cooperation and information sharing to facilitate exchange linkages.</li> </ul>

Subject	Recommendations*
<b>[Strategic Component III ] Promote New Products and Regional Intermediaries</b>	
<b>Promote new regional products</b>	<ul style="list-style-type: none"> <li>Form private sector led task force to develop and promote new regional product development including ETFs, securitization products, index futures and other hedging products to brand ASEAN as an asset class.</li> </ul>
<b>Promote Regionally Active Markets Intermediaries</b>	<ul style="list-style-type: none"> <li>Create an enabling environment to support growth and consolidation of regionally oriented intermediaries.</li> </ul>
<b>[Strategic Component IV ] Strengthen Bond Market Development and Integration</b>	
<b>Review On-going Bond Market Initiative</b>	<ul style="list-style-type: none"> <li>ACMF to initiate dialogue with other regional groupings to agree on priorities</li> <li>Establish mechanisms to address roadblocks in bond issuance and investments on a regional basis.</li> </ul>
<b>Build and Link Infrastructure and Promote Market Liquidity</b>	<ul style="list-style-type: none"> <li>Facilitate cross-border trading, settlement &amp; information linkages.</li> <li>Formulate regional strategy for ratings comparability.</li> <li>Develop disclosure standards for Central Trade Reporting System</li> <li>Create ASEAN pool of market-makers in debt instruments.</li> </ul>
<b>C. Strengthening the Implementation Processes</b>	
<b>[Strategic Component V ] Domestic Capital Markets Development Plans</b>	
<b>Review and speed up domestic capital development plans to facilitate integration</b>	<ul style="list-style-type: none"> <li>Draw lessons from financial crisis to strengthen domestic financial sector and better prepare for capital market integration.</li> <li>Align domestic capital market development plans with the mutual recognition and harmonization initiatives.</li> </ul>
<b>Identify appropriate risk management measures to mitigate risks associated from increased cross border activities</b>	<ul style="list-style-type: none"> <li>Engage with market participants measures to ensure financial sector stability as capital market integration progresses and draw lessons from the financial crisis.</li> </ul>
<b>[Strategic Component VI ] Strengthening the ASEAN Implementation and Coordination Process through the ASEAN Secretariat</b>	
<b>Establish dedicated team at the ASEC for capital market integration</b>	<ul style="list-style-type: none"> <li>Establish dedicated resources at the ASEAN Secretariat, with supporting dedicated contact persons from each ACMF member.</li> <li>Develop and agree on the Terms of Reference (TOR) for capital market integration team in the FID including developing a consolidated action plan, streamlining of the existing ASEAN working committees and task forces, and report progress or raise issue to stakeholders on a regular basis.</li> </ul>
<b>Facilitate implementation of recommendations that are beyond the scope of ACMF</b>	<ul style="list-style-type: none"> <li>ASEAN Secretariat coordinates and works with relevant Working Committees and other related parties to facilitate the implementation of recommendations that are beyond the scope of ACMF.</li> </ul>

\* Recommendations that are beyond the purview of securities regulators should be further assessed by the relevant authorities and working committees to develop and put in place the necessary action plans

## 1. Introduction and Background

At the ASEAN Finance Ministers' Meeting in Danang on 4 April 2008 (AFMM 2008), the ACMF proposed to establish a Group of Experts (GOE) to assist in drafting a proposal for an **“Implementation Plan to promote the Development of an Integrated Capital Market to achieve the objectives of the AEC Blueprint 2015” (Implementation Plan 2015)** and to present that Plan to the Finance Ministers for their consideration at AFMM 2009.

The **Implementation Plan 2015** seeks to achieve the goals of AEC Blueprint 2015 by offering a comprehensive set of strategic initiatives and formulating specific implementation actions and milestones. The initiatives cover three broad themes:

- a. Creating an Enabling Environment for Regional Integration
- b. Creating the Market Infrastructure and Regionally Focused Products and Intermediaries, and
- c. Strengthening the Implementation Process

Under each of the above themes, several strategic components were identified, discussed and developed in a series of consultative meetings organized under the ADB regional technical assistance programs in 2007-2008. Supported by these programs, a team of ADB consultants has developed the Implementation Plan presented in this report, guided and overseen by the Group of Experts appointed by the ACMF<sup>1</sup>. The plan is further elaborated in the accompanying Background Report.

### **The Implementation Plan builds on a range of ongoing initiatives:**

- The work of ACMF to bring about harmonization of selected capital market regulations,
- Various bilateral initiatives among ACMF members to cooperate in key areas.
- The initiatives on various capital market and payment system topics by other regional for such as Asia Pacific Regional Committee of IOSCO (APRC), and Executive Meeting of the East Asia-Pacific Central Banks (EMEAP).
- The work of stock exchanges to build trading linkages and build alliances (ASEAN Common Exchange Gateway (ACE)).

<sup>1</sup>The work on the Implementation Plan was supported by the ADB Regional Technical Assistance Project: ADB TA 6473 – REG: Strengthening South East Asian Financial Markets. The overall project was guided by Mr. Jaseem Ahmed (Director, Financial Sector, Public Management, and Trade Division, Asian Development Bank). The task manager was Junghoon Park (Private Sector Development Specialist, Financial Sector, Public Management, and Trade Division, Asian Development Bank). The ADB Consultant team included Mr. Andrew Sheng (Project Guide, Chief Advisor, China Banking and Regulatory Commission), Mr. V. Sundararajan (Project Coordinator, Director, Centennial Group), three other international consultants, and three national consultants. The Group of Experts chosen by the ACMF to oversee the drafting of the Implementation Plan 2015 consisted of: Mr. Jose Isidro Camacho (Former Secretary of Finance of the Philippines, Vice Chairman, Asia Pacific Credit Suisse), Mr. Banyong Pongpanich (Chairman, Phatra Securities Company Ltd.), Dr. Thillainathan Ramasamy (Director, Bursa Malaysia Berhad) and Mr. Piyush Gupta (CEO, South East Asia Pacific, Citibank, N.A.).

- The ASEAN+3 Asian Bond Market Initiative (ABMI) to develop and integrate local currency bond markets.
- The proposals by the ASEAN Working Committee on Capital Market Development (WC-CMD) and its task forces to promote market linkages, market access, and market liquidity, and
- Various Asian Development Plan (ADB) studies and recommendations on regional integration.

There are five main sections to this report. Sections 2 and 3 seek to present a vision for regional capital market integration, and the rationale for integration, as envisaged for the AEC 2015; Section 4 briefly reviews the obstacles and challenges in achieving integration; Sections 5 present the core components of the Implementation Plan, with Section 6 providing a summary of the Plan in each of the strategic components. An Attachment presents the Implementation Plan as a schedule of specific actions to be taken in three phases (2009-2010, 2011- 2012 and 2013-2015).

## 2. Vision and Approach to Integration

**The AEC Blueprint 2015 pertaining to capital markets seeks to achieve significant progress in building a regionally integrated market, where within the region: 1) capital can move freely; 2) issuers are free to raise capital anywhere; and 3) investors can invest anywhere.** In such a market anyone would be able to trade in ASEAN capital market products freely in any ASEAN market at a competitive fee from a single access point, with capital market intermediaries being able to provide services throughout ASEAN based on home country approval.

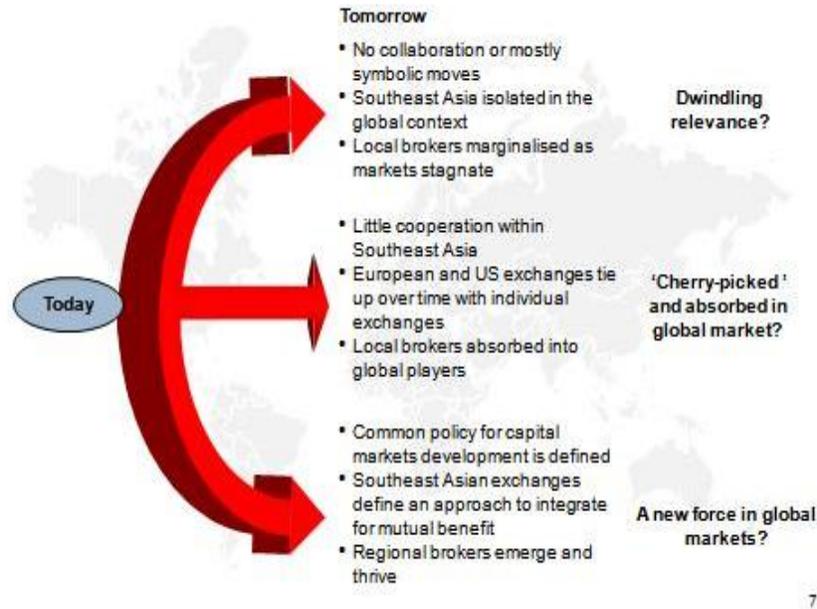
In order to build such a market in ASEAN, there are essentially **two closely related approaches**: One is **to focus on full harmonization of domestic laws, regulations, and operations** in order **to facilitate cross-border access** - based primarily on international principles, standards and best practices. This is supported by mutual recognition in any sectors that are not subject to harmonization and by liberalization measures that will ensure an absence of national restrictions on access. This is broadly the approach taken in the European Union. Another approach is **to create enabling conditions for access with broad harmonization, and supported by mutual recognition** and a greater freedom for capital movements. This is the vision and the approach that is implicit in the AEC Blueprint 2015. The two approaches are complementary rather than alternatives, because effective implementation of a mutual recognition regime necessarily requires adequate progress in strengthening and harmonization of key laws and practices in order to safeguard investor protection, market integrity, and systemic stability. **The objective of regional capital market integration, regardless of the approach, should be to help build the efficiency, capacity and liquidity needed to compete effectively amidst global markets and players.** Thus, implementing regional integration should not exclude non-regional participants, but should focus on enhancing the capacity to compete both regionally and globally.

### 3. Rationale

**Two main reasons support regional financial cooperation and integration. The first is to strengthen financial intermediation, capacity and risk management to support national and regional growth. The second is to cooperate to reduce vulnerabilities to external shocks and market volatility,** a point that became clearer after the Asian Crisis of 1997. Following the crisis, considerable attention has been given to strengthening local currency bond markets and their regional integration as a means to diversify credit sources, minimize risks due to currency and maturity mismatches and thereby foster financial stability. Enhanced regional positioning can attract more capital and order flow due to increased liquidity and size. Aligning national regulatory approaches will reduce administrative costs of operating in the region and enhance its competitiveness.

**Thus, regional integration can facilitate both domestic capital market development as well as global integration by providing the liquidity, scale and capacity to compete globally and manage volatility more effectively.** ASEAN capital markets have made significant progress in depth, trading volume and openness and are large when viewed as a group. However, they are small individually and the range of products and openness within ASEAN remains low. Moreover, the markets remain relatively illiquid, with high transaction costs and large equity premiums, because of subscale trading volumes. In these circumstances, regional (and global) integration that allows greater cross-border access to investors and issuers can help broaden the investor base and range of products. This would strengthen domestic capital markets and provide the liquidity, scale and capacity to compete globally. At the same time, however, further strengthening the efficiency and integrity of domestic capital markets is essential for continued regional integration via interoperability and interconnectivity and improved liquidity and order flows.

**Moreover, the growing competition from global players (e.g. stock exchanges), and the pressures for consolidation and efficiency enhancements due to technological and regulatory changes make regional integration of capital markets a pressing policy concern and calls for a comprehensive strategy.** Consultations with equity markets regulators and market players have highlighted that ASEAN exchanges will have to compete with global exchanges. In the current state of development of equity markets in the region, such competition could undermine domestic capital markets and further regional integration. Global regulatory and technological developments in the securities markets and the emergence of new classes of investors, including hedge funds, have intensified competition among stock exchanges and encouraged consolidation of exchanges, domestically and globally. Unless ASEAN exchanges work together to collaborate and achieve parity with larger players in terms of cost, liquidity, product range and technology investments, good companies in the region will rely on the larger and more liquid markets outside ASEAN, including North Asia, North America and Europe and make **national exchanges increasingly less relevant.** In addition, if demutualized exchanges in the region were to seek alliances with major trading blocs independently, such actions will jeopardize regional integration initiatives. Furthermore, the region's exchanges run the risk of being cherry picked by global suitors and may end up worse than in a collaborative solution (Figure 3).

**Figure 3: Three Scenarios for Southeast Asia**

The threat of domestic exchanges being marginalized or cherry picked by global players in the face of growing competition and consolidation among global exchanges calls for a strengthened strategy for regional collaboration and integration. It also requires that regional integration become a core priority in the national capital market development strategies.

**Similar considerations apply to bond markets, again calling for an expedited regional integration strategy.** Progress in integration of equity markets has to be in tandem with similar progress in bond market integration. This would ensure that the issuers, investors and market intermediaries have adequate tools for risk management and portfolio diversification. In addition, building up scale and liquidity in national bond markets can be greatly facilitated by accessing regional and global markets.

**Generally, by facilitating access to a larger integrated market, regional cooperation and integration can build awareness of ASEAN as an asset class and enhance the region's attractiveness for global capital flows.** Moreover, integration could contribute to financial stability by expanding the market to which regional players have access, making diversification easier and reducing domestic volatility resulting from global shocks. Regional cooperation can also provide a greater voice on financial stability and development issues in global fora. This last consideration has become particularly important for designing coordinated responses to current global financial and economic crisis. In addition, regional integration initiatives and the associated alignment of national regulatory standards with international standards provide an opportunity to draw lessons from the crisis to strengthen risk management, regulatory surveillance, asset securitization and market microstructure.

**Indeed, the ongoing global financial crisis has further strengthened the case for ASEAN integration.** Calls for reforming the global financial architecture and overhauling regulatory and supervisory regime have been forthcoming from many sources, such as the G-20. This creates an opportunity for ASEAN countries to do their part in a way that facilitates their integration regionally and globally, but with the appropriate safeguards to enhance financial stability. Also, the ability of some integrated areas—like the EU—to offer financial support to its members and financial institutions has made them more resilient. The crisis has also made even more obvious the advantages of advance planning to deal with financial turmoil. Furthermore, it has highlighted the need for coordinating the thrust of policies—even if each country still chooses its own way of carrying them out. Also, experiences such as that of the EU clearly indicate that a larger economic and financial area, acting with a concerted voice, has more influence in global economic decisions.

#### **4. Obstacles and Challenges to Integration**

**The studies suggested that regional integration, particularly of private capital markets, has shown only limited progress in ASEAN. Consultations with regulators and market players have highlighted several factors that have hindered regional integration.**

First, the **significant differences in the levels of development of capital markets and in the extent of observance of global standards** has naturally led to focusing on domestic capital market development and to varied perceptions of costs, risks, and benefits of regional integration among market players and country authorities. These perceptions have been influenced by the concerns in some countries about limited new business opportunities in less developed markets and in other countries by the perceived competitive threat from the more advanced market players.

Second, some market players were of the view that **domestic markets should be integrating with the rest of the world rather than within ASEAN** and that the value of regional integration and of promoting ASEAN as an asset class remained unclear. Thus there remains a pressing need for an effective communication plan to articulate the objectives and benefits of ASEAN capital market integration.

Third, reflecting these **differences in the perceived costs and benefits**, countries differ significantly in the extent to which **their national development plans** include the measures to enable and benefit from greater regional integration. Thus, regional initiatives have not been translated into country policies in many cases.

Fourth, the existence of **capital controls and exchange restrictions in many jurisdictions, differences in the withholding tax regimes**, uneven development of and portfolio restrictions on institutional investors, all constrain regional integration. Moreover, differences in the range of products, particularly the lack of derivatives markets or of regionally focused products in many jurisdictions, have hindered both domestic market development and regional integration. In any case, the large differences in regulatory regimes and market infrastructure —as reflected in the degree of observance of global supervisory and market standards—have raised transactions costs for cross-border transactions.

Fifth, **the lack of clarity on the coordination and monitoring mechanisms in ASEAN** has also impeded progress toward regional integration. While there are many ASEAN initiatives on financial market integration, mechanisms to coordinate and sequence them remain weak. Institutional mechanisms to monitor and support the implementation of regionally agreed standards and programs at the country level are missing.

The key challenge therefore is to set up a well sequenced program of regional integration initiatives to achieve the goals of AEC 2015, support it by embedding regional considerations into domestic capital market development programs and reinforce the above through a well designed ASEAN-level monitoring and coordination mechanism. The two-way interaction between strengthening domestic capital markets, and fostering integration, requires that domestic capital market reforms and measures to enhance greater cross-border access, together be properly sequenced and coordinated, based on:

- Common international standards,
- Judicious use of mutual recognition in finance and business,
- Further liberalization of capital controls restrictions,
- Further strengthening prudential safeguards and risk management capabilities to help manage volatility and compete effectively.

A comprehensive strategy and a well-sequenced plan to implement the strategy are discussed in the next section.

## **5. Core Components of the Implementation Plan**

**The core strategy for regional integration is a mutual recognition/harmonization process of expanding scope and country coverage**, supported by phased removal of capital account and other restrictions<sup>1</sup>, the building up of trading and settlement system alliances and infrastructure, and a strengthened coordination and monitoring processes at both regional and country levels to support implementation. These strategies, presented as six strategic components of the Implementation Plan, were discussed with the GOE and the private sector. They are classified into the three main themes mentioned earlier.

### **A. Creating an Enabling Environment for Regional Integration<sup>2</sup>**

1. Design and Implement a Mutual Recognition/Harmonization framework of gradually expanding scope and country coverage (Strategic Component I)

### **B. Creating the Market Infrastructure and Regionally Focused Products and Intermediaries**

1. Implement an Exchange Alliance framework to facilitate cross-border trades with local brokers initially; and strengthen and harmonize exchange governance, listing rules and corporate governance framework (Strategic Component II).

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<sup>1</sup> These works are beyond the scope of ACMF.

<sup>2</sup> To create an enabling environment, restriction on capital flow should also be gradually liberalized along with the reform of tax system in order to facilitate cross-border transactions. However, these issues are beyond the scope of ACMF, therefore, relevant authorities and working committees should further assess to develop and put in place the necessary action plans.

2. Promote new products and regionally active intermediaries to build awareness of ASEAN as an asset class (Strategic Component III).
3. Reinforce and expedite implementation of ongoing strategies and initiatives to strengthen and integrate bond markets (Strategic Component IV).

### **C. Strengthening the Implementation Processes.**

1. Refine the strategies for domestic capital market development in each ASEAN country and incorporate measures and milestones that support regional integration initiatives. (Strategic Component V)
2. Strengthen the ASEAN level working mechanisms in order to better coordinate regional integration initiatives and monitor and support its implementation at the country level. (Strategic Component VI)

## **6. Overview of the Components of the Implementation Plan**

### ***A. Creating the Preconditions***

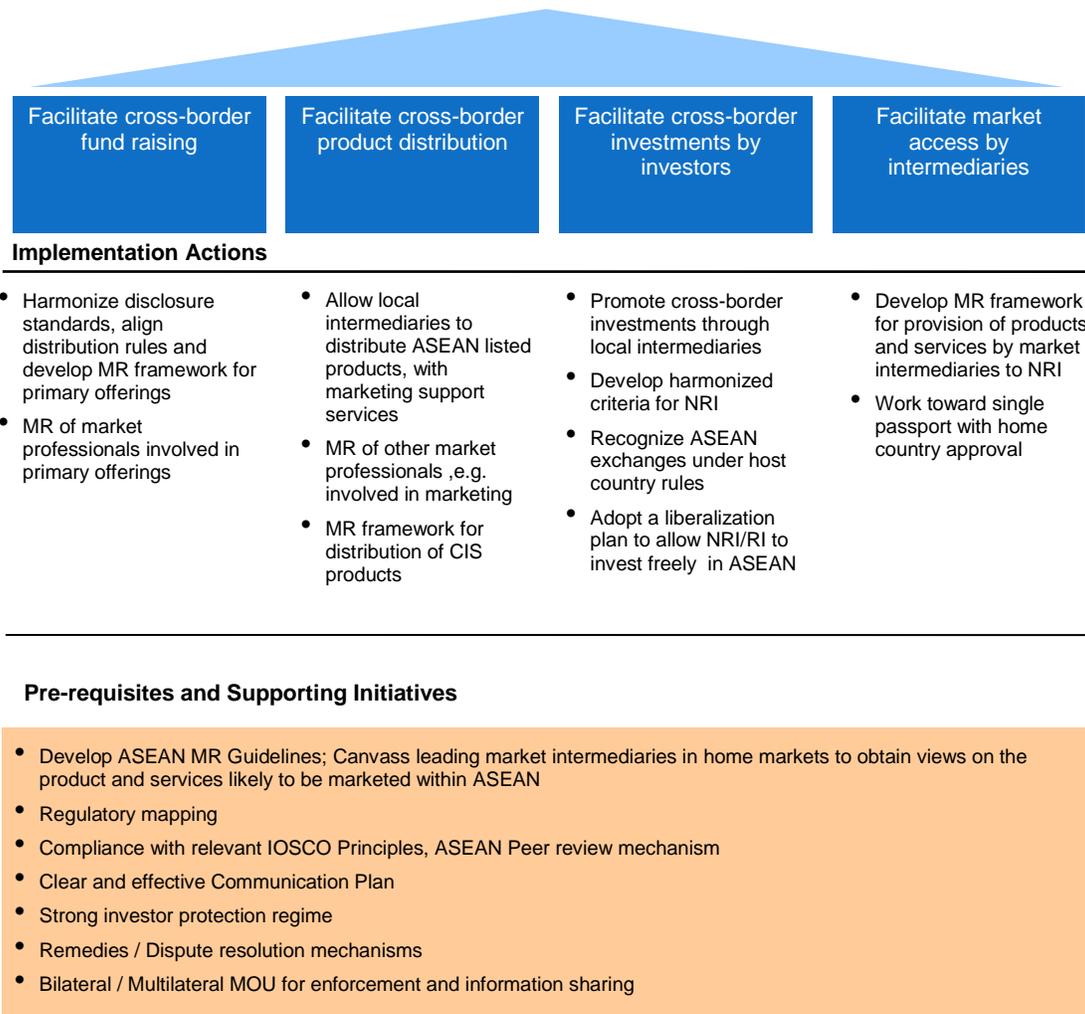
A. Develop a **mutual recognition/harmonization framework**, and expand the reach of products, services, and countries covered by the framework over time.

**The core strategy for regional integration is to develop a mutual recognition process with gradually expanding scope and country coverage.** Cross-border access to capital markets within ASEAN is facilitated by relieving entrants to regional markets of the regulatory burden of fully complying with more than one regulatory regime through mutual recognition or harmonization. Such relief lowers costs, enhances competition, encourages product innovation and increases investors' access to the diversity of products and services available in the region.

The mutual recognition and harmonization framework for ASEAN covers the following four areas of cross-border activities:

- Facilitating cross-border fundraising activities
- Facilitating cross-border distribution of products, such as those listed on ASEAN exchanges, Islamic products and collective investment schemes (CIS)
- Facilitating investments by investors in ASEAN
- Facilitating market access by market intermediaries

Implementation actions for each of these areas are summarized in Figure 4.

**Figure 4: Mutual Recognition (MR) and Harmonisation Framework**

### *ASEAN Mutual Recognition Guidelines*

In order to provide a coherent framework to coordinate the many and diverse strategic mutual recognition and harmonization activities to foster integration, the ACMF will **develop ASEAN Mutual Recognition Guidelines**. The Guidelines would provide broad principles to govern and support the mutual recognition and harmonization programs and guide ACMF members to identify and sequence initiatives for mutual recognition supported by harmonization, and assist countries to determine their readiness to enter into such cross-border arrangements. The initiatives should begin with products, services and activities that are consistent with market preferences, likely to add most value to capital market development within ASEAN and/ or are easy to implement. Taking regulatory action to facilitate cross-border transactions is not sufficient to promote regional integration unless the action generates increased private sector cross-border activities.

The following broad principles will be considered in formulating the Guidelines:

- **To set priorities for the mutual recognition and harmonization** taking into account “quick wins” and “appropriate responses” to the current global crisis as well as market preferences. Undertake sequenced cross-border initiatives for mutual recognition and harmonization, based on consultations with market players.
- **To undertake mapping of regulatory rules** in specific areas where mutual recognition is being considered.
- **To work towards complying with IOSCO Principles relevant to the product, service or activity to be offered cross-border.** This would ensure regulatory equivalence in entering the mutual recognition arrangements.
- **To clarify the responsibilities of the home regulator, and the host regulator** in administering a specific MR framework, including arrangements to disclose the observance of relevant standards through peer review in order to demonstrate readiness to join the framework.
- **To enable host regulator to rely on the laws of the home country** to the greatest extent possible to protect the interests of the local investors, protect the integrity of the local markets and manage the systemic risk in host country.
- **To strengthen investor protection regime** with adequate rights and remedies and dispute resolution mechanism.
- **To continue strengthening bilateral (and multilateral) arrangements** for regulatory cooperation and information sharing.

#### **Phased approach towards mutual recognition.**

**ACMF members recognize that an effective implementation plan for mutual recognition must have clear prioritization.** Therefore, the measures that have been identified for Phase 1 can generally be undertaken by ACMF members as part of their supervisory authority. Some measures particularly those for Phase 2 and 3 would have an impact on the extent of financial services liberalization and would need to have the input of authorities and fora to deal with capital account and financial services liberalization.

Given the differing levels of capital market development and readiness amongst ASEAN countries, the mutual recognition initiatives should be implemented **bilaterally first and then multilaterally** as other countries become ready to join in. In addition, it is often easier to relax restrictions on activities targeted at non-retail investors who may be more vigilant of their rights and hence require less protection. Therefore, it may be practicable to enable cross-border products and services to be made available **first to non-retail investors (NRI) and subsequently to retail investors (RI), complemented by an enhanced investor protection regime.** Key Milestones for Component I are contained in Appendix 1.

***B. Creating the Market Infrastructure and Regionally Focused Products and Intermediaries***

B1. Implement the vision for **the Exchange Alliance Framework**. Strengthen and harmonize **exchange governance, listing rules and corporate governance** framework.

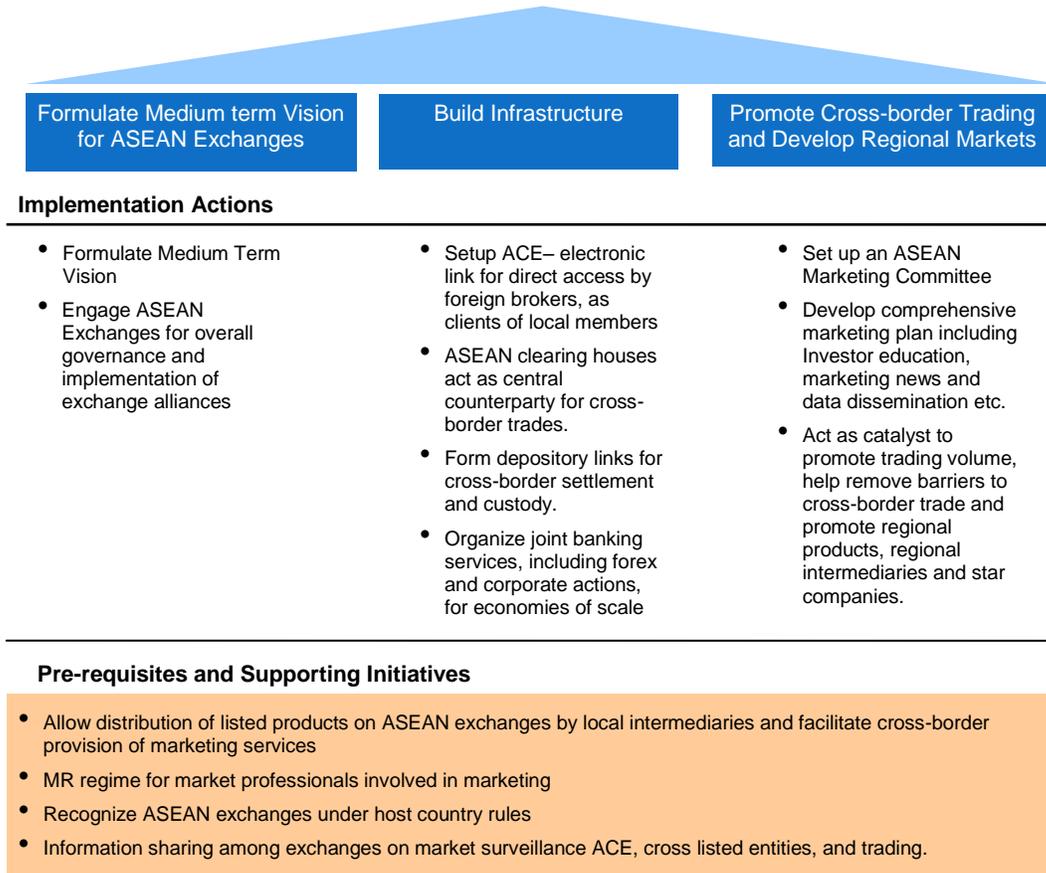
Greater cooperation among ASEAN equity markets is desirable. Through collaboration, exchanges in the region can achieve the following benefits:

- a. Decrease the cost of operations and technology;
- b. Facilitate broker access across exchanges, thus boosting liquidity;
- c. Increase the value of the pool of listed companies, preventing flight to other markets outside ASEAN.

The ASEAN Common Exchange Gateway (ACE) initiative of the regional exchanges to forge alliances and provide trading links requires the exchanges to regulate cross-border trading on their markets effectively. It is also important for securities regulators to collaborate more closely to enable effective and timely regulation of cross-border transactions through enhanced information sharing and regulatory coordination. In many aspects, the proposed mutual recognition initiatives and their sequencing (under Strategic Component I) would provide the foundation for the ACE initiative.

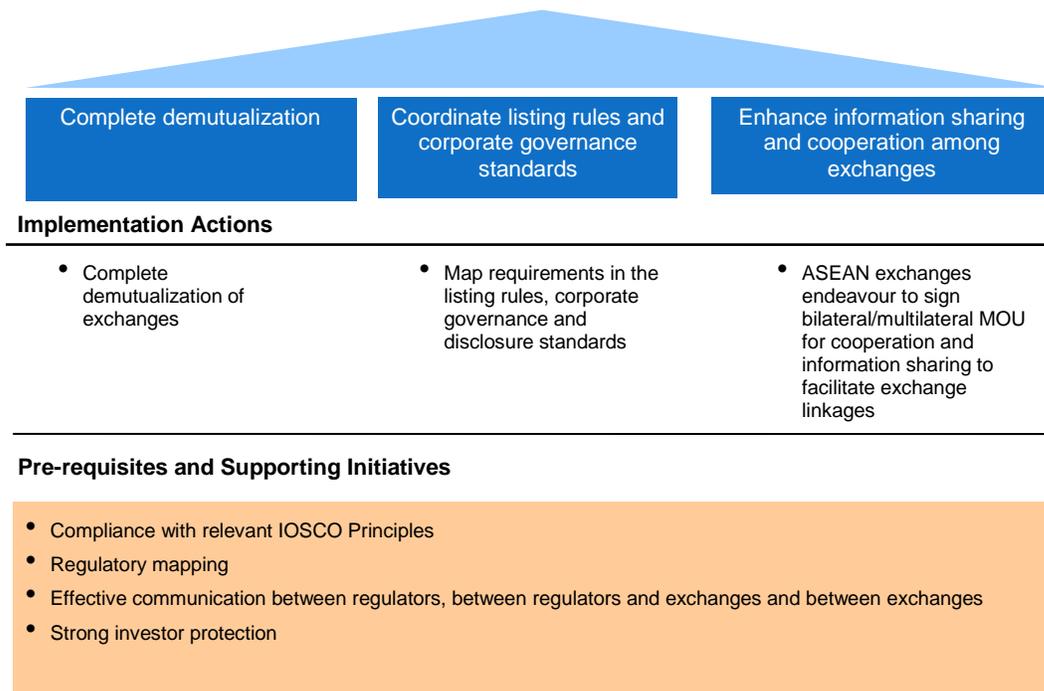
In response to emerging challenges, ASEAN exchanges have decided to build an alliance to link their exchanges to promote liquidity through increased intra ASEAN trades. As they dismantle barriers to trade and adopt international standards, they will attract more international funds.

Key recommendations are summarized in figure 5 below, further elaborated in Attachment to this report (under Strategic Component II).

**Figure 5: Exchange Alliance Framework**

In addition to these initiatives, continued strengthening of exchange governance, corporate governance and accounting and auditing in line with international standards should remain on-going priorities that support regional integration<sup>3</sup>. Key initiatives in this area are summarized in figure 6 below, and further elaborated in Attachment to this report (under Strategic Component II).

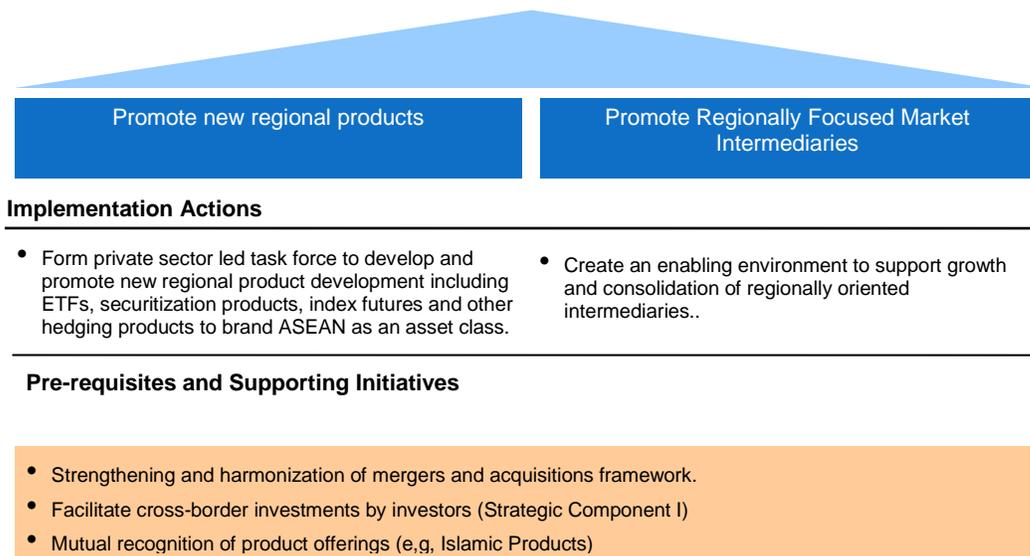
<sup>3</sup> See Strategic Component II in the Attachment for proposed actions.

**Figure 6: Strengthening Exchange and Corporate Governance**

## B2. Promote **new products** and intermediaries to build awareness of ASEAN as an asset class

The incentives for the development of new products to foster regional integration are influenced by the capital market development strategy and the specifics of the exchange alliance framework. Technical cooperation among exchanges can facilitate development of new products, help narrow developmental gaps of ASEAN markets and facilitate the design of regionally-focused products. For example, ASEAN exchanges can take leadership in creating interest rate futures contracts, with a view to an eventual linking of the exchanges and contracts through a single Board and central clearing arrangements. Close collaboration among exchanges and regulators would be critical to support the private sector in designing and trading new products of regional appeal. Regulators and exchanges can facilitate the efforts once the private sector has determined the commercial viability of ASEAN products.

Development of strong regionally-oriented intermediaries will be facilitated by the growth of regionally-focused products and the expansion of mutual recognition arrangements. Investor education and market promotion efforts by ASEAN exchanges would also be important. In addition, the regulators can provide an enabling environment to foster growth of such intermediaries through the creation of an enabling environment to support the establishment of regionally oriented intermediaries. A list of implementation sections is summarized in figure 7 below and further elaborated in the Attachment.

**Figure 7: Promote new Products and Regional Intermediaries**

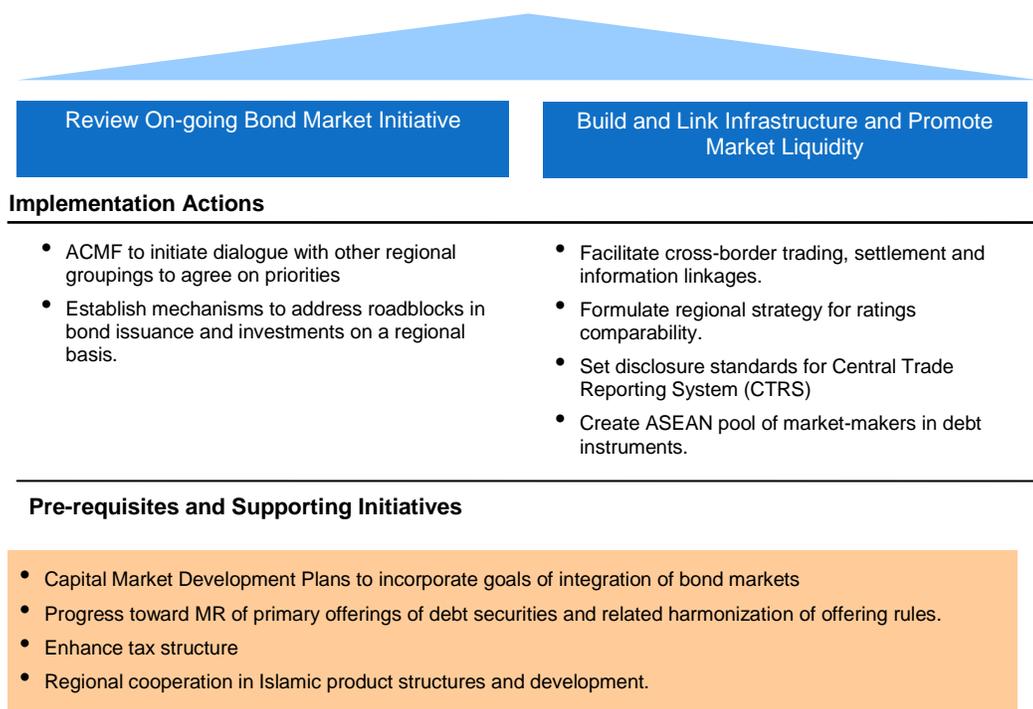
**B3. Reinforce implementation of the on-going strategies and initiatives to strengthen and integrate regional bond markets.**

Key issues in bond markets development - such as improving liquidity, strengthening public debt management, enhancing trading, clearing and settlement microstructures and streamlining capital controls - have been addressed by several regional initiatives including the Asian Bond Market Initiative (ABMI), which is an ASEAN+3 program, and initiatives from other fora including EMEAP, WC-CMD of ASEAN. ACMF will draw on these initiatives in setting priorities for further actions in bond market development and integration.

Bond markets differ fundamentally from equity markets in their trading arrangements and have been primarily transacted over the counter (OTC). Regional integration of these markets requires strong cooperation between the government as an issuer of debt, the central bank as banking supervisor and watchdog for financial stability, the securities regulator and the principal dealers that ensure market liquidity. Thus, initiatives undertaken by the exchanges - such as a common gateway for equity transactions might have a limited applicability to bond markets. While some exchanges list and trade bonds and their clearing and settlement platforms can handle bond trading and clearing, the percentage of total turnover tends to be very low. The experience of other regions also suggests that trying to promote debt market development and integration modeled on equity market structures may have negative implications for bond market fundamentals such as liquidity. The focus should be on ensuring price transparency through disclosure and reporting; the reporting platform could well be the Securities Exchange rather than an independent (e.g. Central Bank-run) platform.

Nevertheless, the ASEAN regulators have an important role to play in several areas of bond market integration, primarily in ensuring mutual recognition of offering documents, improving post-trade transparency as an element of investor protection, in fast-tracking new products that are commercially viable and also in encouraging regional integration of the clearing and trading infrastructure. ASEAN regulators should also look at moving some derivatives and their clearing onto exchange platforms and fundamentally reassess the more complex and opaque derivatives that gave rise to recent credit market problems. ASEAN regulators should encourage ratings comparability in the region, or a national ratings scale that can be compared across countries. Strategic Component IV of the Attachment presents a detailed list of Implementation Actions, and are summarized below in Figure 8.

**Figure 8: Strengthen Bond Market Development and Integration**

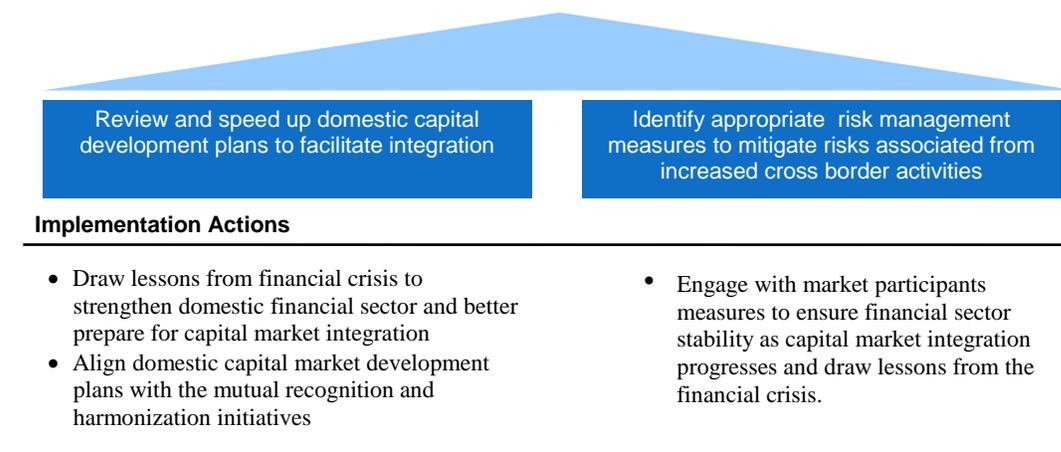


### ***C. Strengthening the Implementation***

**C1. Enhance the Scope of Domestic Capital Market Development Plans** in order to help implement regional integration initiatives

Significant differences in the levels of development of domestic capital markets in ASEAN countries hinder the pace of integration. Efforts are still needed to build consensus in the region on the benefits of financial markets integration and to ensure that actions taken at the national level are consistent with that goal. Such efforts could include the following: 1) close monitoring of developments in regional financial integration and analysis of the related costs and benefits. This would illustrate the value of integration for the private sector and help monitor the effectiveness of policies to foster integration; 2) strengthened efforts to take into account regional integration objectives and policies, such as mutual recognition and regulatory harmonization into capital market development strategies. The initiatives and actions along these national lines are summarized in figure 9 below and spelled out in the Implementation Plan.

**Figure 9: Domestic Capital Markets Development Plans**



**C2. Reinforce and better coordinate ASEAN working processes: An update on ASEAN processes, and the need for new initiatives**

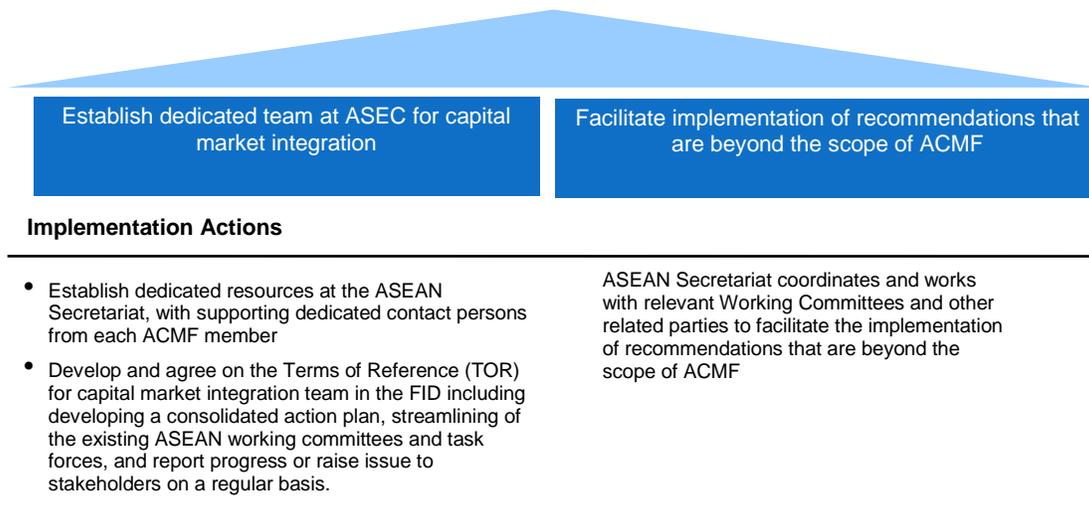
At an informal meeting in Dubai on October 7, 2008, the ASEAN Finance Ministers approved a proposal to strengthen the capacity of the ASEAN Secretariat (ASEC) to undertake both macroeconomic surveillance as well as managing the implementation and coordination of the financial integration process. This would involve establishing a standalone unit in the ASEC, comprising a Macroeconomic Surveillance Division and a Financial Integration Division, both supported by full-time staff.

In order for the proposed Financial Integration Division (FID) of ASEC to be effective in driving and coordinating the processes towards capital market integration, it is important that ASEC has the appropriate capacity to undertake this role. It is proposed that a dedicated team for capital market integration be established in the FID. The role of the dedicated team would include (i) developing a Consolidated Action Plan to serve as a central reference for sequencing, reprioritizing and monitoring the strategic initiatives under the Implementation Plan, (ii) streamlining the Implementation Plan with the various committees under ASEAN, and (iii) monitoring and reporting of the progress of the initiatives under the Implementation.

The ACMF members will support the dedicated team in the FID by having designated contact person. The role of ASEC in assisting the financial integration process is depicted below; the proposed structure of the new unit in ASEC appears in Appendix 2.

The above initiatives and the associated actions are summarized in Figure 10.

**Figure 10: Strengthening the ASEAN Implementation and Coordination Process through the ASEAN Secretariat**



## Appendix 1

### Key milestones for the mutual recognition and harmonization framework

#### *i) Facilitating cross-border fund raising and M&A activities*

- ACMF members adopt the ASEAN and Plus Standards (for disclosure of primary cross-border offerings of equity and debt securities) into their respective regulatory framework, and commit to work towards phasing out the non-core Plus standards to facilitate alignment of ASEAN standards over time.
- The ACMF adopts a mutual recognition framework for market professionals involved in the primary offerings, such as the advisor, valuers, underwriter etc.
- The ACMF aligns other distribution rules and adopts a comprehensive mutual recognition framework for primary offerings.

#### *ii) Facilitating cross-border distribution of products, including listed products, Islamic products and CIS*

- The ACMF allows local intermediaries to distribute ASEAN-listed products to NRI, facilitates the cross-border provision of marketing services when such marketing professionals are part of the local intermediary team.
- The ACMF adopts a mutual recognition framework for cross-border offers of CIS within ASEAN to NRI, and commits to move into APRC expedited-entry framework for CIS products.

#### *iii) Facilitating investments by investors in ASEAN*

- The ACMF adopts and harmonizes policies towards licensing, branching and consolidation of regionally active market intermediaries.
- Adopt harmonized definitions / criteria of what constitutes NRI
- Adopt a liberalization plan, to gradually remove restrictions on cross-border investments to facilitate NRI (and eventually RI) to invest freely within ASEAN.

#### *iv) Facilitating market access by market intermediaries*

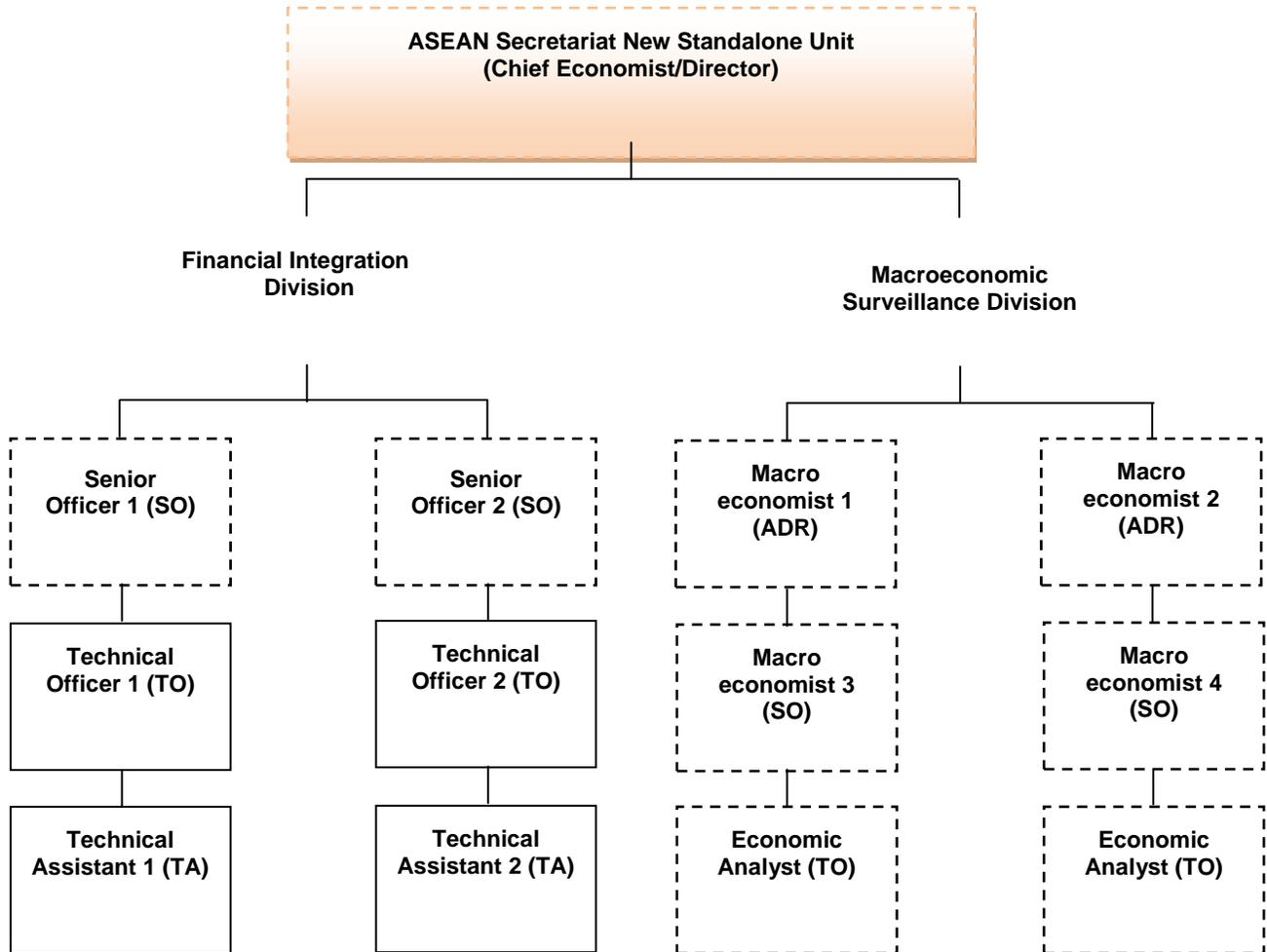
- Adopt an MR framework to facilitate cross-border provision of products and services by market intermediaries with the view towards a single passport regime, with home country approval.

**Appendix 2**

**The Proposed Structure of Financial Services Directorate**

ASEC in its Proposal Paper to the AFMM in Dubai in October 2008 suggested the following organization structure for its new standalone unit, comprising a Financial Integration Division and Macroeconomic Surveillance Division as in Chart 1 below.

**Chart 1: Proposed Structure of Financial Services Directorate**



Existing Positions of ASEC  
 Proposed New Positions

ADR = Assistant Director  
 SO = Senior Officer  
 TO = Technical Officer  
 TA = Technical Assistant

Source: ASEAN Secretariat

**Attachment:**

**Implementation Plan for Regional Integration of  
Capital Markets in ASEAN**

STRATEGIC INITIATIVES	Implementation Plan		
	PHASE I 2009-2010	PHASE II 2011-2012	PHASE III 2013-2015
<b>Component I: <i>Implement a mutual recognition framework while continuing to strengthen and harmonize national laws, regulations and supervision practices within ASEAN countries in line with global standards.</i></b>			
<b>1. Develop a mutual recognition framework and guidelines for cross-border recognition initiatives</b>	a. ACMF develops ASEAN Mutual Recognition Guidelines as a foundation for facilitating cross-border activities	Continue----  (Periodically review and modify the ASEAN MR guidelines based on experience)	
<b>2. Develop a list of sequenced cross-border initiatives on MR and harmonization</b>	<p>a. Formulate a clear and effective communication plan for all stakeholders to build consensus on the benefits and objectives of the ASEAN Capital Market Integration and the scope of the Implementation Plan.</p> <p>b. ACMF members canvass leading market intermediaries in their home countries to obtain views on the demand for cross border products and services and identify a list of sequenced initiatives for cross-border recognition.</p> <p>c. ACMF undertakes mapping of regulatory requirements in areas where mutual recognition is being considered.</p> <p>d. ACMF members identify regulatory barriers to be relaxed or removed to facilitate cross-border transactions.</p> <p>e. ACMF members review and amend legislation as required to support mutual recognition and harmonization.</p>	<p>a. Where required, ACMF members, with the support from ASEAN Secretariat, undergo an independent assessment of observance of agreed international standards, and to make the results of the assessments transparent.</p> <p>Continue----</p> <p>Continue ----</p> <p>Continue ----</p>	Continue----

<p><b>3. Facilitate cross-border distribution of primary offerings of equity and debt securities and listed products, within ASEAN.</b></p> <p><b>3.1 Implement ASEAN and Plus Standards through the adoption of these standards into ACMF members' respective regulatory frameworks, with a view to eventually adopting harmonized ASEAN disclosure standards for primary offerings of securities.</b></p>	<p>a. ACMF members adopt and operationalize the ASEAN and Plus standards into respective regulatory frameworks, and where necessary, take steps to amend/revise domestic laws to permit the use of these Standards for cross-border primary offerings.</p> <p>b. ACMF monitors the progress of member countries in their efforts to adopt the ASEAN and Plus Standards, and the easing of Plus Standards to facilitate the development of ASEAN Disclosure Standards.</p>	<p>a. ACMF members phase out country specific Plus Standards.</p>	<p>a. ACMF adopts harmonized ASEAN disclosure standards for primary offerings.</p>
<p><b>3.2 Broadly harmonize other regulatory requirements to support cross-border primary offerings</b></p>	<p>a. ACMF members map language and governing law requirements for primary offers of securities and agree for cross border offer documents to non-retail investors be governed by the law of the ASEAN issuer's country of incorporation and presented in a common language.</p> <p>b. ACMF develops communication mechanisms between member countries during prospectus submission, review and registration for cross-border offerings. ACMF ensures that</p>	<p>a. ACMF develops mutual recognition framework for primary offerings, and procedures for entering into mutual recognition arrangements.</p> <p>b. Where necessary, ACMF members take steps to amend/revise domestic laws to permit cross border offers under the mutual recognition framework for primary offerings.</p>	<p>a. ACMF members establish bilateral and eventually multilateral mutual recognition arrangements for cross border primary offerings.</p> <p>Continue-----</p>

	<p>information to all investors contain the same information and is distributed at the same time. ACMF works towards more closely harmonized distribution timelines.</p> <p>c. BCLMV countries are encouraged to report progress in capital market development initiatives to ACMF periodically.</p> <p>d. ACMF facilitates requests for assistance in enforcement and exchange of information between member countries.</p>	<p>Continue-----</p>	<p>Continue-----</p>
<p><b>3.3 Develop mutual recognition of market professionals involved in cross-border offerings such as sponsors, financial advisors, credit rating agencies</b></p>	<p>a. ACMF identifies types of market professionals involved in cross-border offerings, and map the current licensing/registration regime.</p> <p>b. ACMF develops framework for mutual recognition of market professionals involved in cross-border offerings and procedures for entering into mutual recognition arrangements.</p>	<p>a. ACMF members establish bilateral and eventually multilateral mutual recognition arrangements of market professionals involved in cross-border primary offerings.</p>	

<p><b>4. Facilitate cross-border distribution of products</b></p> <p><b>4.1 Allow distribution of listed products on ASEAN exchanges by local intermediaries</b></p>	<p>a. ACMF members allow distribution of listed products on ASEAN exchanges by local intermediaries particularly to the non-retail investors.</p> <p>b. ACMF members facilitate the cross-border provision of supporting marketing services by exempting capital market professionals from local authorization requirements when such professionals are part of the local marketing/intermediary team who acts as the principal to non-retail investors.</p>	<p>Continue -----</p> <p>Continue -----</p>	<p>Continue -----</p>
<p><b>4.2 Facilitate cross-border distribution of CIS products within ASEAN</b></p>	<p>a. ACMF members assess readiness to join the IOSCO APRC Expedited Entry Framework on CIS, and sign on when ready.</p> <p>b. ACMF develops a mutual recognition framework for cross border distribution of CIS to non-retail investors within ASEAN and procedures for entering into mutual recognition arrangements.</p>	<p>a. Continue -----</p> <p>b. ACMF members establish bilateral and eventually multilateral mutual recognition arrangements of cross border distribution of CIS to non-retail investors within ASEAN.</p>	<p>a. ACMF expands the scope of the mutual recognition framework to allow cross border distribution of CIS to retail investors within ASEAN.</p>
<p><b>5. Facilitate investment by non-retail investors within ASEAN region and promote similar minimum investment standards in each country.</b></p>	<p>a. Promote cross-border investments by non-retail investors initially through domestic intermediaries, by fostering and facilitating regionally active intermediaries (See Strategic Component III on related initiatives).</p>	<p>Continue----</p>	

	<p>b. ACMF (1) examines laws governing non-retail from retail investors and map criteria required for non-retail investors and (2) identifies restrictions to be removed for non-retail investors to invest freely within ASEAN.</p> <p>c. ACMF develops comparable definitions/criteria for non-retail / qualified investors.</p> <p>d. ACMF members allow recognition of ASEAN exchanges under host country rules to facilitate investment by non-retail investors within the region.</p>	<p>a. ACMF develops harmonized criteria for non-retail investors by reference to international best practice.</p> <p>b. ACMF members take necessary steps to amend/revise domestic laws to harmonize criteria for non-retail investors and remove restrictions that prevent them from investing freely within ASEAN.</p>	<p>a. ACMF works towards removing the remaining restrictions to facilitate all investors (both NRI and RI) to invest freely within ASEAN.</p> <p>Continue -----</p>
<p><b>6. Develop a single passport/licensing regime for market intermediaries (e.g. broker/dealers) with home country approval for facilitating cross-border provision of products and services</b></p>	<p>a. ACMF undertakes regulatory mapping to identify any policy/legal impediments for cross-border provision of services by market intermediaries, particularly compliance with IOSCO Principles 21, 22, 23 and 24 on market intermediaries.</p>	<p>a. ACMF members work towards compliance of IOSCO Principles 21, 22, 23 and 24.</p> <p>b. ACMF develops mutual recognition framework for provision of products and services by market intermediaries to non retail investors and procedures for entering into mutual recognition arrangements.</p>	<p>a. ACMF members establish bilateral and eventually multilateral mutual recognition arrangements for provision of products and services by market intermediaries to NRI.</p> <p>b. ACMF expands the scope of the mutual recognition framework for the provision of products and services by market intermediaries to all investors (both NRI and RI).</p>
<p><b>7. Strengthen investor protection for cross border activities within ASEAN</b></p>	<p>a. ACMF members that are not signatories to Appendix A of IOSCO MMOU take the necessary steps to amend/revise domestic laws to permit them to sign Appendix A within IOSCO's time frame of 2010.</p>	<p>Continue-----</p>	

	<p>b. ACMF develops guidelines for dispute resolution mechanisms to strengthen investor protection.</p> <p>c. ACMF members (1) continue to build bilateral relationships to ensure adequate investor protection for mutual recognition arrangements for cross-border provisions of products/services and (2) enhance information-sharing and cooperation mechanisms between home and host regulators to enforce home country laws applying to ASEAN provider of cross-border products or services in host country.</p> <p>d. To strengthen investor protection, ACMF members consider ensuring the existence of a home country liability regime for compensating investors.</p>	<p>Continue----</p> <p>a. ACMF members establish arrangements for cooperation and information sharing in enforcement and supervision to administer the mutual recognition framework.</p>	
<p><b>Supporting Initiatives :</b></p> <ul style="list-style-type: none"> <li>• Promote new product development and regionally focused market intermediaries (Component III).</li> <li>• Facilitate the linking of trading/settlement/information systems (Component II).</li> <li>• Effective country level implementation of regional initiatives (Component V).</li> <li>• Strengthen risk management and risk control by intermediaries/banks to deal with additional risks from enhanced cross border activities. (Component V).</li> </ul>			

STRATEGIC INITIATIVES	Implementation Plan		
	PHASE I 2009-2010	PHASE II 2011-2012	PHASE III 2013-2015
<b>Component II: Support the on-going Exchange alliance initiatives by ASEAN stock exchanges. Strengthen stock exchange governance within ASEAN countries, continue to strengthen and harmonize listing rules and corporate governance, and enhance stock exchange self regulatory functions, including market surveillance, broker supervision, and compliance with listing rules</b>			
<b>1. Formulate medium term vision for ASEAN exchanges and develop relevant initiatives to meet the Vision</b>	a. ASEAN Exchanges formulate a medium term vision to support the Exchange alliance initiative and present the vision and related initiatives to ACMF.		ASEAN Exchanges raise for discussion the possibility of allowing broking members to have direct market access into sister ASEAN Exchanges and for cross-border trades to be guaranteed by home clearing house.
<b>2. Set up criteria for listed products (stocks, bonds, derivatives, and exchange traded funds) to be made available on the ASEAN Board.</b>	a. ASEAN Exchanges (i) develop criteria for the selection of products on the ASEAN Board.(ii) regularly review the criteria and monitor the performance of the ASEAN Board and (iii) identify ASEAN stocks which are not on the Board for cross border trading, where there is demand.		ASEAN Exchanges raise for discussion the possibility for all listed products on ASEAN Exchanges to be freely traded across ASEAN markets.
<b>3. Establish the electronic trading link via an ASEAN Common Exchange (ACE) Gateway to facilitate trading across ASEAN.</b>	a. Where required, ASEAN Exchanges canvass leading market intermediaries / participants on the development of an electronic link via ACE gateway.  b. Implement ACE bilaterally through a phased approach, with the option to connect ACE to vendors dealing network to expand distribution and access.	a. ASEAN Exchanges endeavor to achieve full linkage to ACE gateway.	Continue---
<b>4. Implement depository linkages, through omnibus accounts.</b>	a. When ready, ASEAN Exchanges develop depository links.	Continue---	

<p><b>5. Enhance information sharing and co-operation among ASEAN stock exchanges.</b></p>	<p>a. ACMF members endeavour to enter into ASEAN multilateral MOU for cooperation and information sharing to facilitate the exchange linkages.</p> <p>b. ASEAN Exchanges endeavour to enter into multilateral MOU for cooperation and information sharing to facilitate the exchange linkages.</p>	<p>Continue---</p> <p>Continue ----</p>	
<p><b>6. Adopt central counterparty clearing</b></p>	<p>a. ASEAN clearing houses develop bilateral clearing links to guarantee trades of their brokers across ASEAN and clear and settle with each other on a net basis.</p>	<p>Continue----</p>	<p>a. Establish a network of clearing houses across ASEAN.</p>
<p><b>7. Engage regional banks to provide forex, payment services and corporate action services to brokers.</b></p>	<p>a. Relevant parties discuss the feasibility of adopting net clearing system across markets.</p> <p>b. Identify and engage with regional banks with good network of branches in ASEAN to provide corporate action services.</p>		
<p><b>8. Review exchanges rules and regulation to facilitate cross border trading activities. .</b></p>	<p>a. ASEAN Exchanges (i) review rules and regulations to facilitate cross border trading activities, including fees and data access issues, and (ii) review the feasibility and propose recommendations on phased alignment of trading rules, hours and prices.</p>	<p>Continue -----</p>	<p>a. Business rules and trading practices to be harmonized as far as practicable. ASEAN Exchanges continue to foster harmonization to facilitate the development of a common trading platform.</p>
<p><b>9. Promote cross-border trading through marketing and market development.</b></p> <p><b>9.1 ASEAN Marketing Committee to undertake investor</b></p>	<p>a. ASEAN Exchanges establish an ASEAN Marketing Committee to (i) develop marketing and investor education programme to promote demand for ASEAN products, (ii) identify a set of “ASEAN star</p>	<p>ASEAN Marketing Committee maintains a comprehensive marketing, investor education and news and research dissemination program to encourage demand for intra-ASEAN trading.</p>	<p>Continue----</p>

<p><b>education, marketing and daily news and information dissemination initiatives to promote and sustain demand for ASEAN products.</b></p> <p><b>9.2 ASEAN Marketing Committee to play a catalytic role in market development and building trading volume.</b></p>	<p>companies” to be promoted for cross border trading and (iii) ensure equal and timely dissemination of information in the home and host markets.</p>		
<p><b>10. Complete the demutualization process.</b></p>	<p>a. Create enabling conditions, including regulatory and governance framework, to allow for demutualization of exchanges.</p>	<p>Continue---</p>	<p>Continue ---</p>
<p><b>11. Coordinate listing rules, corporate governance standards and financial and continuous disclosure requirements.</b></p>	<p>a. ACMF members and Exchanges to (i) map requirements in the listing rules for IPOs and corporate governance standards and (ii) take necessary steps to promote cross listings on ASEAN Exchanges.</p>	<p>a. ACMF members encourage stock exchanges to (i) map requirements in the listing rules for disclosure of financial and price-sensitive information, and (ii) harmonise these requirements to lower costs and ensure timely and contemporaneous disclosure by cross-listed entities.</p> <p>b. ACMF members adopt IFRS and IAS for all listed entities.</p>	<p>Continue-----</p> <p>Continue-----</p>

STRATEGIC INITIATIVES	Implementation Plan		
	PHASE I 2009-2010	PHASE II 2011-2012	PHASE III 2013-2015
<b>Component III: Promote new products, including newly defined ASEAN ETF, ASEAN “star companies and new intermediaries to foster integration.</b>			
<b>1.Promote new regional products and regionally-oriented market intermediaries.</b>	<p>a. Set up private sector led Task Force to (i) focus on promoting new product development, including promoting and developing regional ETF products, regional securitization products, index futures and other hedging products, to brand ASEAN as an asset class, and (ii) foster the development of regional intermediaries to provide cross selling, distribution and investment promotion services across the region.</p> <p>b. ACMF creates enabling environment to support growth and consolidation of regionally-oriented intermediaries.</p>	a. Continue ---.	<p>a. ACMF members allow issuers and investors to freely issue and trade a wide range of ASEAN financial products across the region.</p> <p>b. Accelerate the development of strong regional intermediaries to service ASEAN investors.</p>
<b>2.Promote ASEAN “star companies” for the ASEAN Board</b>	a. Refer to actions under Component II initiative 9.	Continue -----	
<b>3. Promote specific Islamic money and capital market products of regional appeal and facilitate cross-border trading of these products</b>		a. ACMF studies the feasibility of an Islamic covered bond structure, and Islamic products to support infrastructure programs and other instruments.	<p>a. ACMF develops mutual recognition framework for cross border distribution of Islamic products and procedures for entering into mutual recognition arrangements.</p> <p>b. ACMF members establish bilateral and eventually multilateral mutual recognition arrangements for cross border distribution of Islamic products.</p>

STRATEGIC INITIATIVES	Implementation Plan		
	PHASE I 2009-2010	PHASE II 2011-2012	PHASE III 2013-2015
<b>Component IV: Further reinforce the on-going strategies to strengthen bond markets, and their regional integration.</b>			
<b>1. Review the ongoing bond market initiatives in ASEAN, and identify and prioritize the recommendations of various Working Groups and their regulatory implications to support mutual recognition and cross-border trading of bond products.</b>	<p>a. ACMF initiates dialogue with chairs of the ASEAN+3 ABMI Taskforces and WC-CMD to identify and agree on priority areas to facilitate bond market development and integration.</p> <p>b. Initiate action in priority areas identified above.</p>	<p>a. ACMF establishes mechanisms to address roadblocks to issuance and investment on a regional basis including issues arising from regulatory gaps and overlaps.</p>	
<b>2. In line with AEC Blueprint 2015, achieve greater harmonization of capital market standards in ASEAN in the areas of offering rules for debt securities, and the related disclosure requirements and distribution rules.</b>	<p>a. Refer to actions under Component I, Initiatives 3.1 and 3.2</p>	Continue ----	Continue ----
<b>3. Build Infrastructure for cross border trading and promote market liquidity</b>	<p>a. ACMF develops policies to enhance liquidity of domestic bond markets and facilitates cross-border trading through trading, settlement, and information linkages.</p> <p>b. Set minimum disclosure standards for Central Trading Reporting System (CTRS) in order to improve post-trade transparency.</p>	<p>a. Establish local currency interest rate futures operations on ASEAN exchanges, possibly with a linked clearing house, cross-border netting and single accounts.</p> <p>b. Examine the possibility of consolidating or linking clearing houses.</p> <p>c. Study the feasibility to establish either a virtual or real regional futures market for the trading of ASEAN interest rates.</p> <p>d. Set up a pool of regional market makers for bonds.</p>	

<b>4. Facilitate ratings comparability within ASEAN.</b>	a. Design a regional strategy for ratings comparability that takes into account the likely global changes to rating agency supervision and responsibility	Continue---	Continue---
<b>5. Strengthen and rationalize capital income taxation; Enhance withholding tax structure, where possible, to promote the broadening of investor base in ASEAN debt issuance.</b>	a. Relevant parties examine the possibility of establishing a Forum to analyze differences in national tax regulations and differential treatment of different instruments and establish best practices for tax system.		
<p>Supporting Initiatives:</p> <ul style="list-style-type: none"> <li>• Implementation of Mutual Recognition regime for debt offerings (Component I).</li> </ul>			

STRATEGIC INITIATIVES	Implementation Plan		
	PHASE I 2009-2010	PHASE II 2011-2012	PHASE III 2013-2015
<b>Component V: Refine domestic capital market development plans from a regional integration perspective.</b>			
<b>1. Review current time lines and speed up as needed the key components of domestic capital development plans to facilitate integration, including observance of relevant international standards</b>	<p>a. Draw lessons from financial crisis to strengthen domestic financial sector and better prepare for capital market integration.</p> <p>b. Adopt most urgent measures to enhance market stability and draw plan of reforms for Phases II and III.</p> <p>c. ACMF members align domestic capital market development plans with the mutual recognition and harmonization initiatives under Components I and II.</p>	Continue-----	Continue ----
<b>2. Identify appropriate risk management and risk control measures to manage the additional risks arising from increased cross border activities</b>	a. Engage with market participants measures to ensure financial sector stability as capital market integration progresses and draw lessons from the financial crisis.	Continue---	Continue----

STRATEGIC INITIATIVES	Implementation Plan		
	PHASE I 2009-2010	PHASE II 2011-2012	PHASE III 2013-2015
<b>Component VI. Reinforcing the ASEAN Working Processes</b>			
1. Establish dedicated team for capital market integration in the Financial Integration Division, a standalone unit of the ASEAN Secretariat.	a. Establish dedicated resources at the ASEAN Secretariat, with supporting dedicated contact persons from each ACMF member for capital market integration.		
	b. Develop and agree on the Terms of Reference (TOR) for capital market integration team in the FID, which includes: <ol style="list-style-type: none"> <li>1). Developing a Consolidated Action Plan 2009 – 2015 to serve as a central reference for sequencing, reprioritizing and monitoring all the strategic initiatives and action steps relating to capital market integration.</li> <li>2) Streamlining of the existing ASEAN working committees and task forces.</li> <li>3) Developing a mechanism for monitoring of progress of the mutual recognition framework and other initiatives under the Implementation Plan, and</li> <li>4) Report progress or raise issues to stakeholders on a regular basis.</li> </ol>	Continue ---	Continue----
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<p>2. Facilitate implementation of recommendations that are beyond the scope of ACMF</p>	<p>a. ASEAN Secretariat coordinates and works with relevant Working Committees and other related parties to facilitate the implementation of recommendations that are beyond the scope of ACMF.</p>	<p>Continue---</p>	<p>Continue---</p>
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